HOUSING MARKET OUTLOOK

Kelowna - Fall 2004

Canada Mortgage and Housing Corporation

RESALE MARKET

SALES REMAIN AT HIGH LEVEL IN 2005

The Kelowna area resale market will record another strong performance in 2005. Expect sales to drop back ***slightly*** after reaching record highs this year and last. Singles sales have begun to slow in response to sharply rising prices and increasingly stiff competition from the new home market. Higher interest rates in combination with limited income growth also point to fewer sales in 2005.

The demand outlook for both new and resale housing remains positive overall. The BC economy is seeing stronger, more broadly based growth. Employment is up, fueling both population growth and demand for housing. Inter-provincial migration has begun to turn around, recovering in tandem with the BC economy. Consumers are upbeat and in the mood to spend, solid employment growth boosting consumer confidence. Closer to home, the Kelowna area economy and population continue to grow. Robust employment growth and in-migration of retirees and others seeking lifestyle and lifestyle-oriented housing will remain key drivers in 2005.

Sales drop back *slightly* after reaching record highs this year and last.

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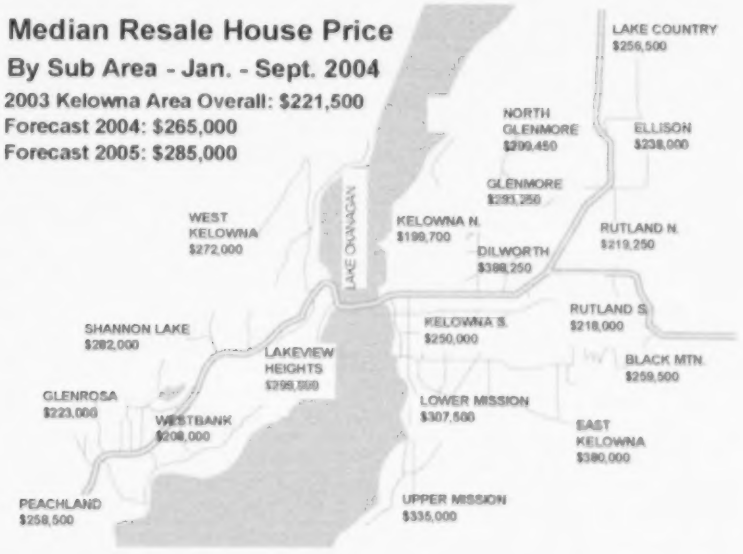
Median Resale House Price

By Sub Area - Jan. - Sept. 2004

2003 Kelowna Area Overall: $221,500
Forecast 2004: $265,000
Forecast 2005: $285,000



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For more information contact:

Paul Fabri - Market Analyst
CMHC - Kelowna Office
Telephone: (250) 712-4334
e-mail: pfabri@cmhc-schl.gc.ca

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Singles sales, though down from this spring's record surge in sales activity, will maintain a brisk pace through 2005. Mid priced resale singles will face stronger competition from the new home market this year. Last year's big draw down in the supply of singles listings and soaring prices have triggered the construction of more moderately priced detached units.

The supply of singles listings has jumped by more than half from a year ago, expectations of big price gains drawing more sellers into the marketplace - many upgrading to the new home market. Supply is up in most neighbourhoods. Expect list prices to begin leveling out in response to increased supply.

The median resale house price will reach $265,000 this year, up 20% from $221,500 in 2003. All sub-market locations have seen big gains. Stronger price competition from the new home market and rising supply of listings point to smaller increases next year. The median resale house price will rise to $285,000-$290,000 by year-end 2005. Glenrosa, Kelowna North, Westbank and Rutland remain, at $200,000-$223,000, the most affordable locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland, and Shannon Lake are the focus of buyers seeking mid priced resale homes. The Mission, Dilworth Mountain, Southeast Kelowna and sections of West Kelowna and Lakeview Heights command the highest prices.

Though continuing to favour sellers, the resale singles market is beginning to move towards a more balanced position.

The apartment condominium market will remain a strong performer in 2005. Sales have shot up, recording big year over year gains since 2002. Affordability and lifestyle have been key drivers. More first-time buyers have turned to higher density housing in the face of sharply rising singles prices. Retirees, move-down buyers and lifestylers remain key sources of demand. Also, tight rental market conditions and low cost of financing have lead to more interest from investors.

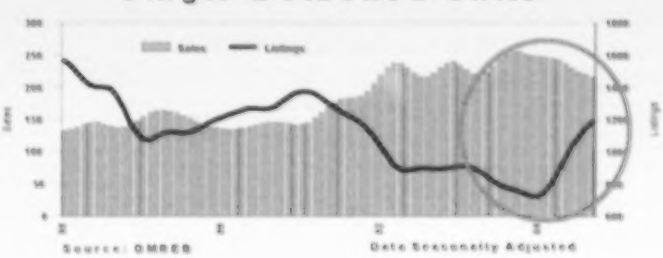
MLS® Median Resale House Price by Sub Area

Area	2003	2004*
Black Mtn.	$205,950	$259,500
Dilworth	$325,000	$388,250
Glenrosa	$176,900	$223,000
Glenmore	$237,500	$283,250
Kelowna N.	$164,500	$199,700
Lakeview H.	$274,950	$299,500
L. Mission	$285,000	$307,500
N. Glenmore	$247,000	$299,500
Peachland	$225,000	$258,500
Rutland N.	$184,450	$219,250
Rutland S.	$180,750	$218,000
Shannon Lke.	$236,000	$282,000
Up. Mission	$297,000	$335,000

* Jan. - September

Townhouse sales have seen smaller gains, due more to supply, rather than demand side constraints. The supply of condo and townhouse listings has shot back up after plunging to near record lows last year. New projects account for most of the increase in supply.

The median resale condo and townhouse prices will jump 16% and 14% to $145,000 and $180,000, respectively, this year.



Expect sales to slow after reaching record highs this year and last, but maintain a high level overall in 2005.

NEW HOME MARKET

STARTS REACH 13 YEAR HIGH IN 2005

Kelowna area housing starts will increase to near record highs in 2005. Housing starts will total 2,500 units, sharply rising multi-family starts offsetting a small drop in singles construction. New home construction will break the 2,000 unit mark for the third straight year, numbers not seen since the early 1990s. For the first time ever, multi-family starts - combined semi-detached, townhouse and apartment units - will surpass singles starts. Expect housing starts to reach 2,230 units in 2004.

The singles sector will remain buoyant in 2005. Absorption has held up, keeping the inventory of complete and unabsorbed units low. Also, with resale prices on the rise, more buyers are turning to the new home market. Singles starts will drop back slightly in 2005, due mainly to fewer rebuilds of homes destroyed in last year's wildfires. More than three quarters of the 238 homes destroyed in the Okanagan Mountain Park wildfire have now been rebuilt or are currently under construction. Rebuilds will account for 10% of singles starts in 2004.

The move-up, move-down and retiree markets will remain the focus of new home demand. Lifestyle oriented housing - adult-oriented communities, housing on golf courses and subdivisions which bring together the right combination of housing form, setting and amenities - will stay front and centre. Lake and valley view properties remain the strongest performers.

New home construction will break 2,000 unit mark for the third straight year.

More builders are beginning to target first-time move-up buyers and others seeking mid-priced detached housing, until recently, a largely untapped market. This segment of the market will see stronger growth next year, pent-up demand and greater availability of moderately priced building lots, pointing to more opportunity for expansion. New, conventional detached housing remains out of reach for most first-time buyers. Attitudes are slowly changing, higher density housing becoming more widely accepted. Expect builders to bring forward more projects - small lot/house combinations and multi-family units - offering a range of more affordably priced housing in 2005.

Strong demand for more upscale housing, rising lot prices and other costs will keep new home prices high. New singles prices - exclusive of rebuilds - have jumped by more than a third in just five years.

Rising lot prices, an ongoing shortage of skilled trades and more recently, the skyrocketing cost of some building materials remain big challenges for the new home industry. The time

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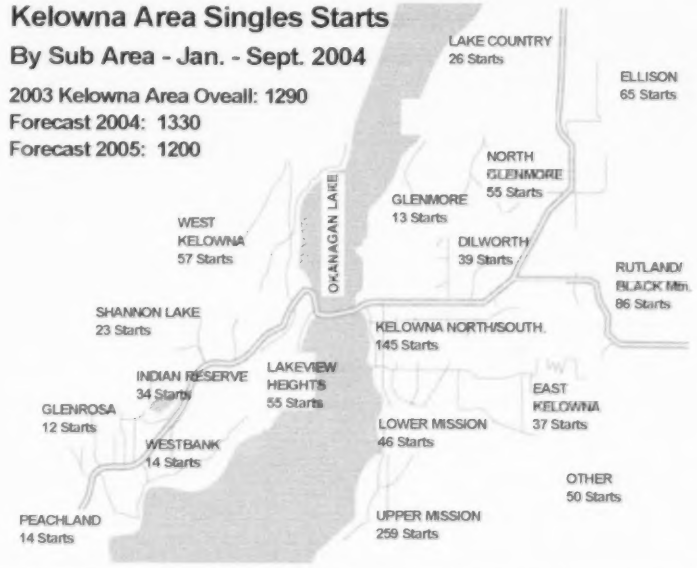


required to build a new home has steadily increased over the past year.

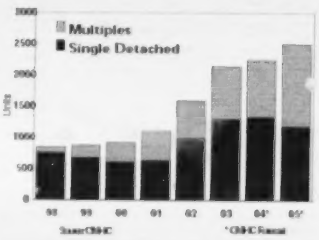
Lot prices continue to trend up sharply in response to strong demand and tight supply. Lot supply has just barely kept pace with demand, leaving developers scrambling to bring more on stream. Also, most developments have, until recently, targeted the mid to upper price ranges. Much of the available inventory is, at present, concentrated in the Upper Mission area, Lakeview Heights and Dilworth Mountain. Several big developments - Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of higher end building lots are moving ahead with their final phases of detached housing this year. New multiphase subdivisions in Lake Country, North Glenmore and the Black Mountain and Westbank areas are now coming on stream. Several are targeting mid rather than high end buyers, offering lots in the $90,000-$110,000 price range.

The median lot price will reach $110,000 by year-end 2004, up 15% from $95,900 last year. The $90,000-$100,000 price range now represents the low end in most new subdivisions. Premium lake, city and valley view lots are commanding prices in the $125,000-$200,000 plus range. The median lot price will climb to $115,000-$120,000 in 2005.

Apartment condominium starts will surge ahead in 2005, fueled by buyers seeking lifestyle and resort-oriented housing. Retirees and move-down buyers also remain big sources of demand. Expect condo starts to drop back this year, the decline due more to supply than demand side constraints.

Demand for resort and other types of lifestyle-oriented condominiums has exploded during the past three year period. An aging population, low interest rates, and a growing profile among Vancouver and out-of-province buyers have all contributed to increased demand. The range of resort housing options has, in itself, become a huge draw. The resort/lifestyle market has evolved quickly, segmentation by product type - tenure, location (waterfront/golf course), building type and range of amenities - the key to expansion. Many are second residences, investor-owned units or purchased in anticipation of retirement.

Chart 3 Kelowna Housing Starts



Starts up again in 2005.

Absorption has been brisk, keeping inventories low. Pre-sales are also holding up - 85% of units under construction have already been sold.

The condo market is moving in new directions. Kelowna will see its first loft condo units this year. Construction will begin on two more towers in 2005. Multi-family housing is becoming more widespread. Look for more low and medium density projects in Peachland, Westbank and Lake Country next year.

With the price of both new and resale detached units up sharply, more first-time buyers are

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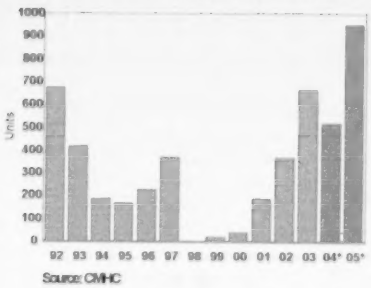
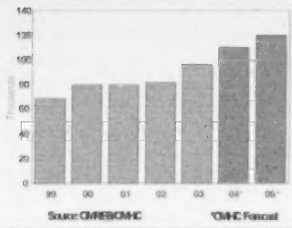
Condo Starts Surge Ahead in 2005



Skyrocketing demand for resort and other types of lifestyle oriented housing will boost Kelowna area apartment condo starts to record highs in 2005. This segment of the market, is, in many ways, uniquely Okanagan. The Kelowna area has always been a mecca for retirees and tourists. An aging population and the "wealth factor" has added a new dynamic. The first of the boomers, Canada's largest and wealthiest age group are now at early retirement. Today's boomers are much different than their parents - more widely traveled, better educated, more active and more likely to seek housing that is designed to complement a particular lifestyle. This segment of the Kelowna market is attracting a much wider mix of buyers than ski resorts - homeowners, investors and buyers seeking second residences and recreational properties. Lake front and golf course locations are hot sellers. The market offers a wide range of product by building type, tenure, amenities, location and price.

Chart 4 Median Lot Sale Price



turning to the new condo market. Few projects are currently targeting this segment of the market. Pent-up demand and recent reductions in Development Cost Charges have triggered more interest among builders. Expect to see more first-time buyer oriented condo and townhouse projects come on stream next year. The Kelowna area condo market will become ***increasingly competitive*** in 2005.

Townhouses have made a comeback this year, regaining popularity lost through the mid 1990s. Look for more projects in Rutland, North Glenmore and the Mission in 2005. Once again, affordability has been the key driver.

The congregate housing market has seen vacancy rates drop for the fourth straight year. Declining vacancy rates and rising demand triggered more construction in 2004. Two projects, totaling 270 units, both in core area locations, are currently under construction. Expect to see new congregate housing and assisted living projects in City and West side locations next year.

RENTAL MARKET

VACANCY RATE STAYS LOW

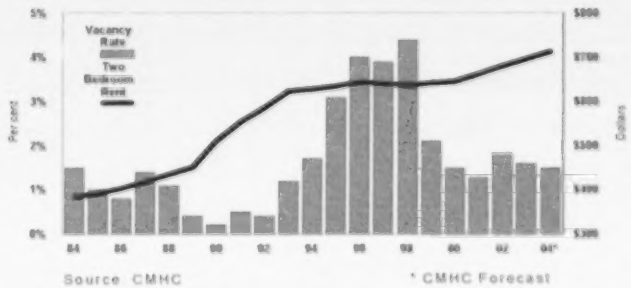
The Kelowna area rental market will remain tight this year and next. Steady employment and population growth have meant strong demand for rental accommodation, keeping vacancy rates low. The vacancy rate edged down to 1.6% last year from 1.8% in 2002. Expect vacancy rates to remain low at 1.5% in 2004.

Rents will continue to trend up in response to sustained low vacancy rates. Average rents will increase another 2-3% in 2004, one and two bedroom apartment rents climbing to $585-$590 and $710-$715 per month, by year-end. Supply has continued to lag behind demand, despite low vacancy rates. High land and land development costs and scarcity of sites remain big challenges for developers. Also, with demand for condominiums on the upswing, builders are, for now, focusing on the ownership market.

Other types of housing have helped boost the stock of rental accommodation. Attached "Carriage Home" and in-unit secondary suites - "mortgage helpers" - have become increasingly popular. Also, the investor condo market has picked up.

Rental housing starts will total 105 and 50 units in 2004 and 2005, respectively. Plans to double student enrollment at UBC Okanagan will boost demand over the next several years. Look for development opportunities in areas experiencing stronger employment growth - Westbank, Rutland, Orchard Park and the Highway 97 Corridor.

Chart 5 Overall Vacancy Rate and Two Bedroom Apartment Rent



Vacancy rate will remain low this year and next. Once again, sustained low vacancy rates will continue to push up rents.

ECONOMY AND POPULATION GROW IN 2005

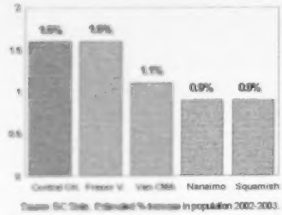
The Kelowna area economy, driven by strong population growth, will continue to expand in 2005. The Okanagan region is leading BC in employment growth for the second straight year. Residential construction and related manufacturing, high tech, retail, business, health care and personal services sectors are the biggest sources of employment growth. Tourism has begun to recover from the post 9/11 downturn. Small business has become the engine of growth. Kelowna has also seen a growing trend towards self-employment. Diversification is the Kelowna area economy's key strength.

The Okanagan continues to experience a huge surge in resort construction activity. High profile resort markets have, in turn, boosted interest in conventional housing. Resort oriented and conventional housing markets are seeing more and more overlap. Plans to expand Okanagan University College to a full service university - UBC Okanagan - will generate significant employment growth. Enrollment is expected to double by 2010. The long term impact on the Kelowna area economy will be enormous - profile, jobs, capital expenditure, research dollars and increased demand for housing. The recently announced bridge replacement project will also mean more jobs.

People are coming back to BC. BC has seen a net inflow of migrants from other provinces - mainly Alberta and Ontario - since last fall, ending five years of out-migration. Historically, inter-provincial migration has been a big source of Kelowna area housing demand.

Kelowna remains among the fastest growing larger centres in BC. A strong Vancouver real estate market has lead to more migrants from the lower mainland. Also, Kelowna will continue to benefit from a province-wide trend towards urbanization. Many rural areas are seeing an outflow of people to larger urban centres, spurred in part, by shrinking employment opportunities among resource dependent communities.

Chart 6 Central Okanagan Fastest Growing Region in BC

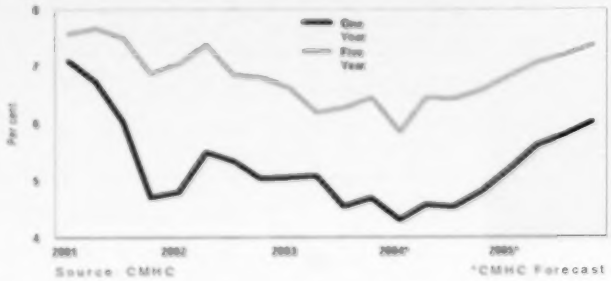


Source: BC Stats. Estimated % increase in population 2002-2003.

Kelowna is now seeing more broadly based in-migration - retirees, lifestylers ***and*** job seekers. The Kelowna area population will grow by 1.5-2.0% in 2005.

Mortgage interest rates are on the rise. Rates will continue to edge up through the balance of 2004 and on into 2005, but remain low by historical standards. The one, three and five year mortgage rates will increase to 5.06-5.77%, 6.15-6.66% and 6.67-7.15% range, respectively, through 2005.

Chart 7 Mortgage Interest Rates



Source: CMHC

*CMHC Forecast

Expect gradually rising mortgage interest rates in 2005.

HOUSING MARKET OVERVIEW

Resale Market Remains Strong in 2005

- Sales will drop back ***slightly*** in 2005 after reaching record highs this year and last. Sharply rising prices, increasingly stiff competition from the new home market and higher interest rates point to fewer sales next year. The supply of listings has shot back up, expectations of big price gains drawing more sellers into the market place - many upgrading to the new home market. Prices will see smaller gains next year, the rate of increase slowing in response rising supply and stronger competition from the new home market. The median resale house price will jump 20% to $265,000 in 2004, recording double digit increases for the second straight year. Expect prices to continue trending up, the median resale house price reaching $285,000-$290,000 by year-end 2005. Though continuing to favour sellers, the resale singles market is beginning to move towards a more balanced market position.

Condo Construction Boosts Housing Starts in 2005

- Kelowna area housing starts will increase to near record highs in 2005, new home construction breaking the 2,000 unit mark for the third straight year. Housing starts will total 2,500 units next year, sharply rising condo starts offsetting a small drop in singles construction. For the first time ever, multi-family starts will exceed singles construction. Housing starts will reach 2,230 units in 2004.
- Singles starts will drop back slightly due to fewer rebuilds of homes destroyed by last year's wildfires. Though move-up, retiree and move-down markets will remain the focus of demand in 2005, builders are beginning to target buyers seeking more modest, mid-priced detached units - until recently, a largely untapped market. This segment of the market will see stronger growth next year, pent-up demand and greater availability of moderately priced building lots pointing to more opportunity for expansion.
- Lot prices will continue to trend up in the face of strong demand and tight supply. New subdivisions in Black Mountain, Westbank and Lake Country will boost the supply of mid-priced building lots.
- The apartment condo sector will surge ahead in 2005, fueled by buyers seeking resort and other lifestyle-oriented housing. Retirees and move-down buyers will remain key markets. Expect to see more proposals for first-time buyer oriented multi- family housing - both condo and townhouse - come forward next year.
- Mortgage rates are on the rise. Expect rates to edge up through 2005, but remain low by historical standards.
- The Kelowna area economy and population will continue to grow in 2005. Residential construction and related manufacturing, high tech, retail sales, business and personal services sectors remain the biggest sources of job creation. Kelowna is now seeing more broadly based population growth - retirees, lifestylers ***and*** job seekers.

Rental Vacancy rates Stay Low in 2005

- The Kelowna area vacancy rate will remain in the 1.5%-1.75% range this year. Rents will continue to rise in response to sustained low vacancy rates.

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KELOWNA RENTAL MARKET REPORT

CMHC's annual ***Kelowna Rental Market Report*** gives you an in-depth look at vacancy and rental rate trends for all apartment and townhouses structures of three or more units. Information you need to know!

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Lisa Preston - Administrator,
Products and Services

Phone: (604) 737-4088
Fax: (604) 737-4021
E-mail: lpreston@cmhc-schl.gc.ca

FORECAST SUMMARY

Kelowna Area
Fall 2004

RESALE MARKET	2002	2003	2004*	2005*	% CHG.
MLS Active Listings (Sept.) **	1,218	906	1,599	1,725	7.9%
MLS Sales					
Total	3,586	3,863	4,000	3,825	(4.4%)
Single-Family	2,750	2,902	2,900	2,700	(6.9%)
Apartment	497	631	750	775	3.3%
Townhouse	339	330	350	375	7.1%
MLS Median Price					
Single-Family	$189,000	$221,500	$265,000	$285,000	7.5%
Apartment	$105,000	$124,900	$145,000	$160,000	10.3%
Townhouse	$148,000	$158,000	$180,000	$195,000	8.3%
NEW HOME MARKET					
Complete and Unoccupied (Sept.)	61	72	98	140	43%
Single-Family	38	47	61	75	23%
Multi-Family (excludes rental units.)	23	25	37	65	76%
Starts					
Total	1,590	2,138	2,230	2,500	11.1%
Single-Family	987	1,290	1,330	1,200	(9.8%)
Multi-Family	603	848	900	1,300	41.3%
Median New House Price	$265,400	$279,250	$325,000	$350,000	7.7%
Rental Market					
Vacancy Rate	1.8%	1.6%	1.5-1.75%	1.5-1.75%	
Rental Rate - % Chg. two bedroom	2.6%	2.5%	2.5-3.0%	2.5-3.0%	
Rental Housing Starts***	64	54	105	50	
ECONOMIC OVERVIEW					
Mortgage Rate (3 year term)	6.28%	5.82%	5.23-5.90%	6.15-6.66%	
Mortgage Rate (5 year term)	7.02%	6.39%	5.85-6.44%	6.67-7.15%	
Net Migration	2,250	3,000	4,000	4,000	

* Forecast. ** Single-detached, apartment and townhouse. *** Privately and publicly initiated units. Source: CMHC, Okanagan Mainline Real Estate Board.
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